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Kazakhstan - Republic of

Grain and Feed Update

Kazakhstan Grain Harvest and Exports to Rebound

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Report Highlights:

Kazakhstan's grain production is expected to jump this year to 19.2 million tons, up 60 percent on last year's drought affected crop. These greater exportable supplies in 2011/12 will boost wheat grain exports, and Kazakhstan could benefit from reduced supplies in other high-quality wheat suppliers.

Post:

Astana

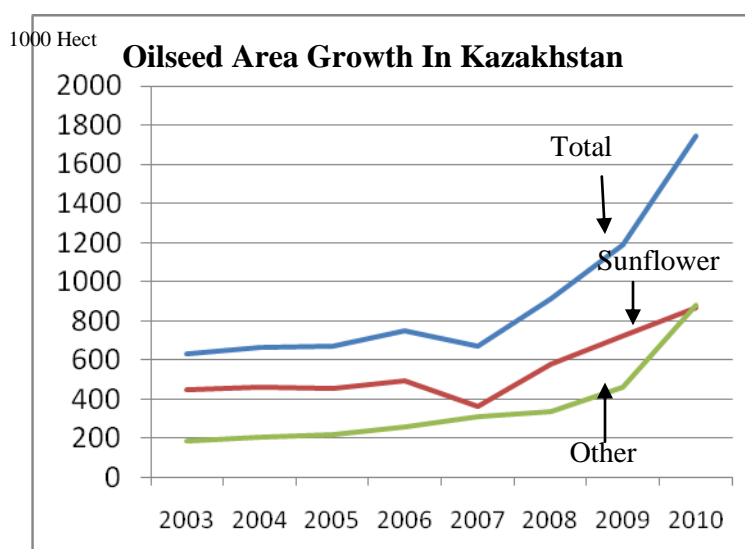
In mid-August the Senior Agricultural Attaché and Agricultural Specialist conducted crop assessment travel throughout the northern 3 Oblasts of Kazakhstan, Kostanai, Northern Kazakhstan, and Akmola (which account for 82 percent of wheat production in Kazakhstan).

Production

Although the planting of some crops were delayed by spring rains, the weather in 2011 during the growing season was near ideal, with resulting much higher yields expected in all crops and especially wheat. Soil moisture was very good to begin the season, and this even led many farmers to decide to plant fields which they had planned to leave fallow. Because of beneficial weather, Kazakhstan's grain production is rebounding this year from last year's drought-reduced crop, and is expected to reach 19.2 MMT (16.0 MMT wheat), compared to 12.0 MMT last year (9.7 MMT).

Harvesting of barley has begun in Northern Kazakhstan, with harvesting of wheat set to begin at the end of August/begging of September. The only remaining concern for the crop is whether early cold weather or excess rain before or during harvest will effect quality, which last year was excellent.

Wheat is by far the largest crop produced in Kazakhstan, accounting for 78 percent of grain and oilseed planted area. Oilseeds production, which is primarily concentrated in the East and South of Kazakhstan, is steadily growing albeit from a very small base. Northern growers are also expanding area, although there short growing seasons and low precipitation rates make growing oilseeds risky and yields more variable than grains. Despite this, very strong domestic demand from livestock producers and subsequent high (and consistently high) prices, as well as agronomic considerations for crop rotation, have led many better financed farmers to begin to grow more sunflower, rapeseed, flax, and soybeans.



Source: Kazakhstan Statistics Agency

Nevertheless, despite the small but steady expansion of oilseed area, the majority of Kazakh land is still

planted monoculture with wheat. This is primarily because marketing these crops is much easier, as most grain trading companies are focused entirely on exports of wheat and barley. In addition, inputs, seeds, and machinery costs for planting oilseeds are higher, which means it is usually only better-financed farms that are able to diversify away from wheat.

Consumption

Grain, and specifically wheat, consumption is relatively stable in Kazakhstan, with on average about half of all wheat being consumed domestically for food, feed and seed usage. Wheat feed consumption is expected to recover in 2011/12 as a result of expected lower domestic prices and greater supply. The poultry industry is a significant consumer of wheat, as it is typically the largest component in feed rations.

Trade

Kazakh grain exports are expected to rebound this year as a result of the higher availability, with total grain exports estimated at 8.3 MMT (8.0 of which is wheat and flour) compared to 5.7 MMT last year (5.4 of wheat and flour).

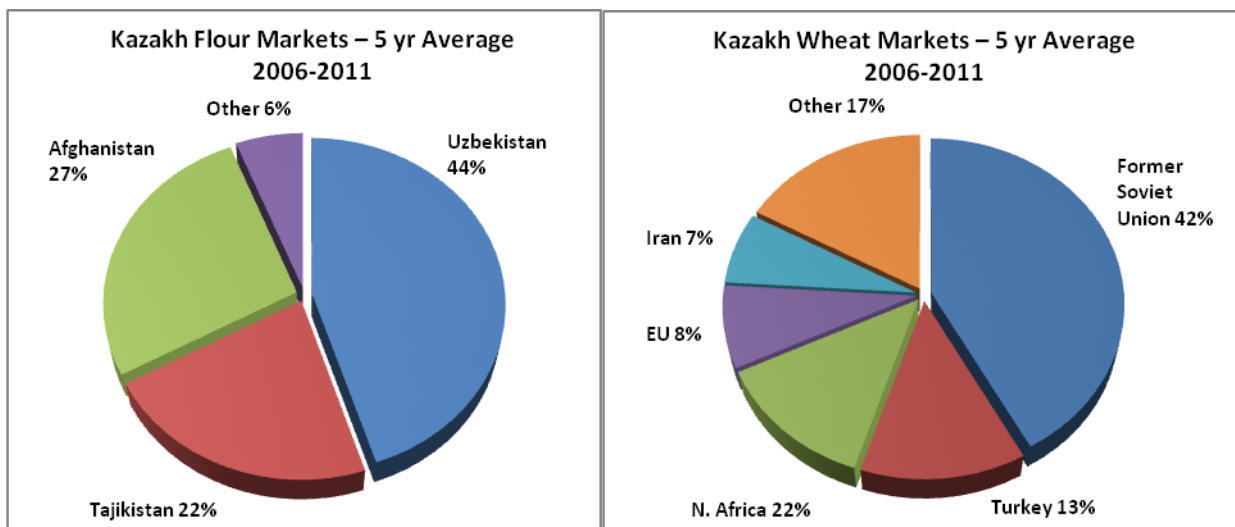
Kazakhstan is the world's largest flour exporter, primarily supplying other Central Asian markets. These exports are expected to continue steady this year, although there may be a little more competition from Russian flour as a result of the much larger harvest there. In the long-term, however, flour exports are unlikely to be a growth area for Kazakhstan as some Central Asian importers have begun developing their own milling industries (although this development will open opportunities for Kazakh wheat grain exports to these markets).

Kazakhstan is landlocked, and as such has major logistical and marketing problems when it comes to selling grain onto the world market. There is only one major port in Kazakhstan, Aktau on the Caspian Sea, but its capacity is relatively minor and is used to primarily supply Azerbaijan and Iran. Kazakh exporters are largely reliant on Russian and Ukrainian ports in order to export their wheat and barley. Having to ship through these ports is problematic as a result of high transportation costs (current transportation costs from Kazakh production areas to the Russian port of Novorossiysk is about \$150/MT, and to Ukrainian ports are \$160/MT), which in many years are higher than the price of the wheat. In addition, in years such as this when Ukraine and Russia are experiencing bumper crops, it makes it much more difficult to obtain quotas for these Black Sea ports. Because of these difficulties, Kazakh grain companies have invested in port capacity on the Baltic Sea, and current transport costs to these ports is actually less expensive than to Black Sea ports.

Many in Kazakhstan had hoped that China would become a major buyer of Kazakh grain, and although some exports of wheat have begun to flow to China (16,000 MT in 2009/10 and 31,000 MT in 2010/11) there are currently a number of obstacles to large volumes of trade with China. Some of these are logistical problems such as different railway gauges between the two countries and the hesitancy from

the Kazakh side to send rail wagons into China (especially as there is already a shortage in Kazakhstan). However, the largest obstacle is the Chinese requirement that all wheat imports from Kazakhstan be imported in bags, rather than bulk. This requirement is hugely time consuming, and although some Kazakh grain companies are investing in terminals and bagging plants at the border, as long as this requirement is in place it will temper the amount of grain that can be shipped.

Despite these logistical and geographic difficulties, reduced global supplies of high-protein milling wheat from Canada, the United States, and EU, should help boost demand for Kazakh spring wheat (96 percent of the wheat grown in Kazakhstan is spring) on global markets and encourage the export recovery this year. Currently, Kazak prices are much higher than world market prices, but with the impending bumper crop these will likely decline significantly in the next few months.



Source: Kazakhstan Customs Service

Stocks

The Kazakhstan Statistics Agency reported that grain stocks as of July 1, 2011 were 3.5 MMT of which 3.3 MMT was wheat. Although some storage scarcity may occur due to the large harvest, Kazakhstan during the Soviet Union regularly produced significantly more grain than even this year's bumper crop, and as a result there is some excess capacity in Soviet built concrete storage facilities.

For the past few years, Kazakhstan has had a functioning warehouse receipts program which has made the trading and using of grain as collateral much easier. Under the current system, when grain is put in an elevator, the owner of the grain is given a warehouse receipt which is printed on official currency paper (printed at the same place as the Kazakh tenge) and includes a number of security features to reduce counterfeiting. This receipt states the quality and amount of the grain, and can be used at banks for collateral for loans, or can be sold to interested buyers. In order to sell the grain, the seller and buyer just need to sign the back of the receipt and inform the elevator within 10 days of selling. Other than this the actually grain elevator does not need to be involved in the exchange.

Policy

The Government of Kazakhstan supports crop production through a number of programs, including cheap credit for machinery purchases. These government-financed loans offer much longer terms and lower rates (4-6 percent compared to up to 15 percent) from private banks. Subsidies are also provided for fuel and pesticides, and fertilizer is sold at large discounts. In addition agricultural producers do not have to pay VAT, and also enjoy other discounted taxes.

While all land is owned by the government, agricultural producers lease the land for a 49-year period, and are required to pay almost nothing for this leasing. Also, although these farmers do not own the land, they are able to use “rights to use the land” rather than the land itself as collateral to receive loans from banks.

PSD For Wheat

| Wheat Kazakhstan | 2009/2010 | | 2010/2011 | | 2011/2012 | |
|--------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
| | Market Year Begin: Jul 2009 | | Market Year Begin: Jul 2010 | | Market Year Begin: May 2011 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 14,751 | 14,751 | 14,500 | 14,500 | 14,000 | 14,000 |
| Beginning Stocks | 1,998 | 3,223 | 3,686 | 4,911 | 1,811 | 3,036 |
| Production | 17,052 | 17,052 | 9,700 | 9,700 | 16,000 | 16,000 |
| MY Imports | 57 | 57 | 25 | 25 | 25 | 25 |
| TY Imports | 57 | 57 | 25 | 25 | 25 | 25 |
| TY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 19,107 | 20,332 | 13,411 | 14,636 | 17,836 | 19,061 |
| MY Exports | 7,871 | 7,871 | 5,400 | 5,400 | 7,500 | 8,000 |
| TY Exports | 7,871 | 7,871 | 5,400 | 5,400 | 7,500 | 8,000 |
| Feed and Residual | 2,700 | 2,700 | 1,900 | 1,900 | 2,700 | 2,700 |
| FSI Consumption | 4,850 | 4,850 | 4,300 | 4,300 | 4,800 | 4,800 |
| Total Consumption | 7,550 | 7,550 | 6,200 | 6,200 | 7,500 | 7,500 |
| Ending Stocks | 3,686 | 4,911 | 1,811 | 3,036 | 2,836 | 3,561 |
| Total Distribution | 19,107 | 20,332 | 13,411 | 14,636 | 17,836 | 19,061 |
| | | | | | | |

1000 HA, 1000 MT, MT/HA